

MARION INDEPENDENT SCHOOL DISTRICT
MARION, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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MARION INDEPENDENT SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2004 Election)		
Thomas Thurman	President	2005
Donald B. Norton II	Vice President	2004
Tom Bullis	Board Member	2006
Dennis Walters	Board Member	2006
Mary Ames	Board Member	2004
Dan Barkley	Board Member	2005
Connie Bennett	Board Member	2005
<u>Board of Education</u>		
(After September 2004 Election)		
Thomas Thurman	President	2005
Donald B. Norton II	Vice President	2007
Tom Bullis	Board Member	2006
Dennis Walters	Board Member	2006
Mary Ames	Board Member	2007
Dan Barkley	Board Member	2005
Connie Bennett	Board Member	2005
<u>School Officials</u>		
Nicolas Hobbs	Superintendent	2005
David Bradley	District Secretary/Treasurer	2005
Matthew Novak	Attorney	2005
Brian Gruhn	Attorney	2005
Iris Muchmore	Attorney	2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Marion Independent School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Marion Independent School District, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to observe the physical inventory recorded in the nonmajor Enterprise, School Nutrition Fund to verify the accuracy of the physical count of items on hand at June 30, 2005.

In our opinion, except for the effects of our inability to observe the inventory count as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Marion Independent School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Marion Independent School District as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2005 on our consideration of Marion Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 17 and 52 through 53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion Independent School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2003 (none of which are presented herein) were audited by other auditors whose report expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Marion Independent School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues and other financing sources increased from \$15,087,579 in fiscal 2004 to \$15,583,904 in fiscal 2005, while General Fund expenditures increased from \$15,532,371 in fiscal 2004 to \$15,833,381 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$895,460 in fiscal 2004, to \$645,983 in fiscal 2005, a 28% decrease from the prior year.
- The increase in General Fund revenues was attributable to a 3% increase (+\$79,000) in tuition revenues and a 5% increase (+\$384,000) in state aid in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and additional staffing needed for the increased number of students being served.
- The District received approximately \$390,000 less in tuition revenues than was budgeted for the 2004-05 school year. This is because over 100 open enrolled-in students from the 2003-04 school year did not return to the district in the fall of 2004. This caused the District's General Fund reserves and solvency ratio to drop proportionally for the fiscal year ending June 30, 2005.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as Food Services and the Student Built House Program.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. The District took Board action several years ago and moved all of the District's fiduciary funds to the ownership of the Marion Independent School District Foundation.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

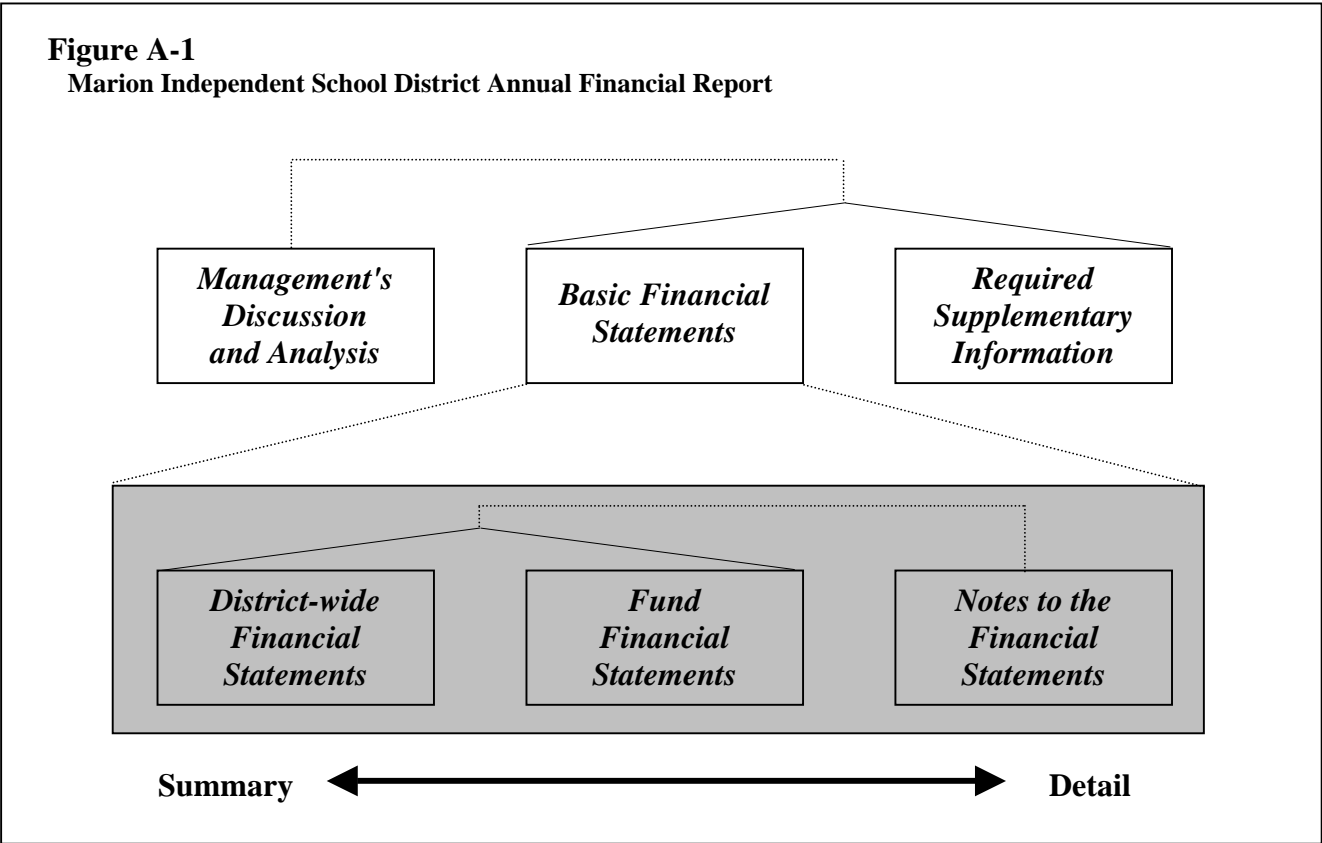


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and the student built house program	Marion does not administer resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax, state aid and open enrollment tuition finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program and student built house program are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as Physical Plant and Equipment funds.

The District has two kinds of funds. Most Iowa school districts have three kinds of funds, but Marion Independent School District doesn't utilize fiduciary funds.

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Activity Fund, PPEL Fund, PERL Fund, Management Fund, Debt Service Fund and Capital Projects Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the Student Store Fund and The Student Built House Fund.
- *Fiduciary funds:* The District has no fiduciary funds as the School Board has transferred these funds to the Marion Independent School District Foundation.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

Figure A-3

Figure A-3	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$9,664,912	\$7,712,532	\$339,855	\$308,334	\$ 10,004,767	\$ 8,020,866	24.73%
Capital assets	<u>10,017,008</u>	<u>10,207,677</u>	<u>22,816</u>	<u>27,650</u>	<u>10,039,824</u>	<u>10,235,327</u>	-1.91%
Total assets	<u>19,681,920</u>	<u>17,920,209</u>	<u>362,671</u>	<u>335,984</u>	<u>20,044,591</u>	<u>18,256,193</u>	-9.80%
Long-term obligations	5,431,842	6,014,583	-	-	5,431,842	6,014,583	-9.69%
Other liabilities	<u>9,019,292</u>	<u>6,509,258</u>	<u>7,100</u>	<u>42,167</u>	<u>9,026,392</u>	<u>6,551,425</u>	37.78%
Total liabilities	<u>14,451,134</u>	<u>12,523,841</u>	<u>7,100</u>	<u>42,167</u>	<u>14,458,234</u>	<u>12,566,008</u>	15.06%
Net assets							
Invested in capital assets, net of related debt	4,590,706	4,206,410	22,816	27,650	4,613,522	4,234,060	8.96%
Restricted	190,710	338,465	-	-	190,710	338,465	-43.81%
Unrestricted	<u>449,370</u>	<u>851,493</u>	<u>332,755</u>	<u>266,167</u>	<u>782,125</u>	<u>1,117,660</u>	-30.02%
Total net assets	<u>\$5,230,786</u>	<u>\$5,396,368</u>	<u>\$355,571</u>	<u>\$293,817</u>	<u>\$ 5,586,357</u>	<u>\$ 5,690,185</u>	-1.82%

The increases in other assets and other liabilities can be attributed to the District's participation in the ISCAP program in 2005. See Note 6 to the financial statements for further details on the ISCAP program.

Overall the District's net assets decreased a modest 1.82% or \$103,828.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

	Change in Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2005-2004
Revenues							
Program revenues							
Changes for service and sales	3,710,561	3,563,745	638,123	637,108	4,348,684	4,200,853	3.50%
Operating grants, contributions and restricted interest	1,290,410	1,404,075	212,019	198,615	1,502,429	1,602,690	-6.26%
General revenues							
Property tax	5,265,145	5,457,624			5,265,145	5,457,624	-3.53%
Unrestricted state grants	6,801,854	6,406,004			6,801,854	6,406,004	6.18%
Unrestricted investment earnings	36,223	15,409	2,721	1,287	38,944	16,696	133.25%
Other	50,464	24,257			50,464	24,257	108.04%
Total revenues	17,154,657	16,871,114	852,863	837,010	18,007,520	17,708,124	1.69%
Program expenses							
Instruction	11,008,084	10,756,282			11,008,084	10,756,282	2.34%
Support services	5,066,643	4,806,716			5,066,643	4,806,716	5.40%
Non-instructional programs	0	6,252	791,109	801,859	791,109	808,111	-2.00%
Other expenses	1,245,512	1,179,642			1,245,512	1,179,642	5.58%
Total expenses	17,320,239	16,748,892	791,109	801,859	18,111,348	17,550,751	3.19%
Change in net assets	-165,582	122,222	61,754	35,151	-103,828	157,373	-165.98%

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 11,008,084	\$ 6,578,480
Support services	5,066,643	5,003,996
Non-instructional programs		
Other expenses	<u>1,245,512</u>	<u>736,792</u>
Total expenses	<u>\$17,320,239</u>	<u>\$ 12,319,268</u>

- The cost financed by users of the District's programs was \$3,710,561. Exhibit B Total Governmental Activities – Charges for Services revenues total.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,290,410. Exhibit B, Total Governmental Activities, Operating Grants revenues total.
- The net cost of governmental activities was financed with \$5,265,145 in property tax, \$6,801,854 in state foundation aid and \$36,223 in interest income. Exhibit B General Revenues section

Business-Type Activities

Revenues of the District's business-type activities were \$852,863 Exhibit B Business-type activity revenue – Charges for services (\$638,123) + Operating Grants (\$212,019) and interest (\$2,721) and expenses were \$791,109 Exhibit B – Business type activities expenses. The District's business-type activities include the School Nutrition Fund, School Store and Student-built House. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Financial Analysis of the District's Funds

As previously noted, the Marion Independent School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$666,824, Exhibit C, Total Fund Balances which is \$564,412 less than last year's ending fund balances of \$1,231,236. (Exhibit E, Fund Balance, beginning of year.)

Governmental Fund Highlights

- The District's General Fund Balance decreased from \$895,460 to \$645,983. There are several factors that affected this reduction. The first is that the District budgeted to spend money from its cash reserves. A second reason is the District over estimated the open enrolled in students that would be attending the school.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$144,374 at June 30, 2004 to \$201,089 at June 30, 2005, representing an increase of approximately 39.3%.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. (Districts having private-purpose trust and agency funds are not required to adopt a budget for these funds.) Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. The District did not amend its annual operating budget. A schedule showing the final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund are not presented in the budgetary comparison on page 52.

Legal Budgetary Highlights

The District manages or controls expenditures through its line-item budgets. As a result, the District's certified budget should align conservatively higher than the actual expenditures during the year.

The District's budget was not exceeded in total; however, expenditures did exceed the budget in the non-instructional programs and other expenditures functions.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the District had invested \$10,039,824, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.91% from last year. More detailed information about capital assets is available in Note 1D and Note 7 to the financial statements. Depreciation expense for the year was \$477,114.

Governmental activities account for \$10,017,008 with the remainder \$22,816 in the Proprietary, School Nutrition Fund.

Figure A-6

	<u>Capital Assets, Net of Depreciation</u>						
	Governmental		Business-type		Total		Total
	<u>Activities</u>		<u>Activities</u>		<u>School District</u>		<u>Change</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-05</u>
Land	\$ 695,344	\$ 695,344	\$ -	\$ -	\$ 695,344	\$ 695,344	0%
Construction in progress	178,211	470,158	-	-	178,211	470,158	-62.10%
Buildings and improvements	8,132,846	7,922,100	-	-	8,132,846	7,922,100	2.66%
Improvements, other than buildings	267,852	301,857	-	-	267,852	301,857	-11.27%
Furniture and equipment	<u>742,755</u>	<u>818,218</u>	<u>22,816</u>	<u>27,650</u>	<u>765,571</u>	<u>845,868</u>	-9.49%
Totals	<u>\$10,017,008</u>	<u>\$10,207,677</u>	<u>\$22,816</u>	<u>\$27,650</u>	<u>\$ 10,039,824</u>	<u>\$ 10,235,327</u>	-1.91%

Long-Term Debt

At June 30, 2005, the District had \$5,431,842 in general obligation and other long-term debt outstanding. This represents a decrease of 9.69 % from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 8 to the financial statements.

The District annually employs an early retirement policy which is to be reviewed annually by the Board. Currently, the District has no early retirement obligations.

	<u>Outstanding Long-term Obligations</u>		
	Total		Total
	<u>School District</u>		<u>Change</u>
	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
General obligation bonds	\$ 5,310,000	\$ 5,760,000	-7.81%
Capital loan notes	0	75,000	-100.00%
Compensated absences	5,540	13,316	-58.40%
Contracts payable	<u>116,302</u>	<u>166,267</u>	-30.05%
Total	<u>\$ 5,431,842</u>	<u>\$ 6,014,583</u>	-9.69%

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's enrollment has been increasing steadily for the past several years, primarily based on open enrollment in. The classrooms within the various schools are becoming full and fewer open enrollment-in students will be allowed to enroll due to limited classroom space. This will continue to negatively impact the steadily increasing tuition revenues that the district has relied upon.
- It will be imperative that the District make sound decisions during employee contract negotiations so that approximately half of the allowable growth "new money" for 2005-06 is available to backfill the loss of tuition revenues for 2004-05.
- The enrollment for Marion Home School Assistance Program grew from 594 students in 2004-05 to 650 in the fall of 2005. This increase was in line with estimates. This should allow for continued growth for tuition revenues for the 2005-06 school year
- The District's taxable valuation continues to grow due to new housing starts. A number of new homes have been built in the past year in a new housing development. This should help to keep the taxable valuations growing in the District.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Bartz, District Secretary and Business Manager, Marion Independent School District, 777 South 15th Street, Marion, IA 52302.

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Basic Financial Statements

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 2,049,499	\$ 271,000	\$ 2,320,499
Receivables:			
Property tax:			
Current year	51,422	-	51,422
Succeeding year	4,790,308	-	4,790,308
Accounts	37,419	67	37,486
Due from other governments	657,381	-	657,381
Note receivable (note 5)	47,752	-	
Inventories	-	68,788	68,788
Restricted ISCAP assets (note 6):			
Investments	2,016,895	-	2,016,895
Prepaid expenses	14,236	-	14,236
Capital assets, net of accumulated depreciation (note 7)	10,017,008	22,816	10,039,824
 Total assets	 19,681,920	 362,671	 20,044,591
<u>Liabilities</u>			
Accounts payable	545,453	1,421	546,874
Salaries and benefits payable	1,557,386	5,679	1,563,065
Accrued interest payable	21,204	-	21,204
ISCAP warrants payable (note 6)	2,008,000	-	2,008,000
ISCAP unamortized premium	26,967	-	26,967
Deferred revenue:			
Succeeding year property tax	4,790,308	-	4,790,308
Other	47,752	-	47,752
Early retirement payable	22,222	-	22,222
Long-term liabilities (note 8):			
Portion due within one year:			
Bonds payable	470,000	-	470,000
Contract payable	56,719	-	56,719
Compensated absences	5,540	-	5,540
Portion due after one year:			
Bonds payable	4,840,000	-	4,840,000
Contract payable	59,583	-	59,583
 Total liabilities	 14,451,134	 7,100	 14,458,234

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 4,590,706	\$ 22,816	\$ 4,613,522
Restricted for:			
Management levy	46,305	-	46,305
Public education and recreation levy	29,085	-	29,085
Other special revenue purposes	106,728	-	106,728
State grants	8,592	-	8,592
Unrestricted	449,370	332,755	782,125
Total net assets	\$ 5,230,786	\$ 355,571	\$ 5,586,357

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 7,412,550	\$ 2,792,634	\$ 526,383	\$ -
Special instruction	2,385,129	446,041	229,094	-
Other instruction	1,210,405	435,452	-	-
	<u>11,008,084</u>	<u>3,674,127</u>	<u>755,477</u>	<u>-</u>
Support services:				
Student services	637,042	1,133	17,546	-
Instructional staff services	607,026	-	-	-
Administration services	1,754,593	-	-	-
Operation and maintenance of plant services	1,696,610	12,033	-	-
Transportation services	371,372	23,268	8,667	-
	<u>5,066,643</u>	<u>36,434</u>	<u>26,213</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	171,812	-	-	-
Long-term debt interest and fiscal charges	274,759	-	-	-
AEA flowthrough	508,720	-	508,720	-
Depreciation (unallocated) *	290,221	-	-	-
	<u>1,245,512</u>	<u>-</u>	<u>508,720</u>	<u>-</u>
Total governmental activities	17,320,239	3,710,561	1,290,410	-
Business-Type Activities:				
Non-instructional programs:				
Food service operations	616,402	452,613	212,019	-
School store	612	610	-	-
Student built house	174,095	184,900	-	-
Total business-type activities	<u>791,109</u>	<u>638,123</u>	<u>212,019</u>	<u>-</u>
Total	\$ 18,111,348	\$ 4,348,684	\$ 1,502,429	\$ -

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (4,093,533)	\$ -	\$ (4,093,533)
(1,709,994)	-	(1,709,994)
(774,953)	-	(774,953)
(6,578,480)	-	(6,578,480)
(618,363)	-	(618,363)
(607,026)	-	(607,026)
(1,754,593)	-	(1,754,593)
(1,684,577)	-	(1,684,577)
(339,437)	-	(339,437)
(5,003,996)	-	(5,003,996)
(171,812)	-	(171,812)
(274,759)	-	(274,759)
-	-	-
(290,221)	-	(290,221)
(736,792)	-	(736,792)
(12,319,268)	-	(12,319,268)
-	48,230	48,230
-	(2)	(2)
-	10,805	10,805
-	59,033	59,033
(12,319,268)	59,033	(12,260,235)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 15)

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ 4,239,567	\$ -	\$ 4,239,567
712,560	-	712,560
313,018	-	313,018
6,801,854	-	6,801,854
36,223	2,721	38,944
50,464	-	50,464
12,153,686	2,721	12,156,407
(165,582)	61,754	(103,828)
5,396,368	293,817	5,690,185
<u>\$ 5,230,786</u>	<u>\$ 355,571</u>	<u>\$ 5,586,357</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and pooled investments	\$ 1,845,943	\$ 331,813	\$ 2,177,756
Receivables:			
Property tax:			
Current year	40,434	10,988	51,422
Succeeding year	3,741,139	1,049,169	4,790,308
Interfund receivable (note 4)	117	13,263	13,380
Accounts	20,649	16,770	37,419
Due from other governments	657,381	-	657,381
Note receivable (note 5)	47,752	-	47,752
Restricted ISCAP assets (note 6):			
Investments	2,016,895	-	2,016,895
Prepaid expenses	14,236	-	14,236
Total assets	\$ <u>8,384,546</u>	\$ <u>1,422,003</u>	\$ <u>9,806,549</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances			
Liabilities:			
Excess of warrants issued over bank balance	\$ 83,733	\$ 44,524	\$ 128,257
Accounts payable	274,538	270,915	545,453
Salaries and benefits payable	1,556,434	952	1,557,386
Interfund payable (note 4)	-	13,380	13,380
ISCAP warrants payable (note 6)	2,008,000	-	2,008,000
ISCAP unamortized premium	26,967	-	26,967
Deferred revenue:			
Succeeding year property tax	3,741,139	1,049,169	4,790,308
Other	47,752	-	47,752
Early retirement payable (note 8)	-	22,222	22,222
Total liabilities	<u>7,738,563</u>	<u>1,401,162</u>	<u>9,139,725</u>
Fund balance:			
Reserved for:			
State grants	8,592	-	8,592
Debt service	-	17,694	17,694
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	3,147	3,147
Undesignated	637,391	-	637,391
Total fund balances	<u>645,983</u>	<u>20,841</u>	<u>666,824</u>
Total liabilities and fund balances	<u>\$ 8,384,546</u>	<u>\$ 1,422,003</u>	<u>\$ 9,806,549</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2005

Total fund balances of governmental funds	\$ 666,824
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	10,017,008
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(21,204)
Long-term liabilities, including bonds and contracts payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,431,842)</u>
Net assets of governmental activities	<u>\$ 5,230,786</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 4,135,787	\$ 1,123,946	\$ 5,259,733
Tuition	3,158,067	-	3,158,067
Other	188,492	445,651	634,143
State sources	7,788,492	1,156	7,789,648
Federal sources	310,228	-	310,228
Total revenues	15,581,066	1,570,753	17,151,819
Expenditures:			
Current:			
Instruction:			
Regular instruction	7,324,581	23,227	7,347,808
Special instruction	2,385,129	-	2,385,129
Other instruction	796,199	414,206	1,210,405
	10,505,909	437,433	10,943,342
Support services:			
Student services	637,042	-	637,042
Instructional staff services	607,026	-	607,026
Administration services	1,737,393	-	1,737,393
Operation and maintenance of plant services	1,455,927	214,522	1,670,449
Transportation services	381,364	-	381,364
	4,818,752	214,522	5,033,274
Other expenditures:			
Facilities acquisition	-	377,251	377,251
Long term debt:			
Principal	-	574,965	574,965
Interest and fiscal charges	-	281,517	281,517
AEA flowthrough	508,720	-	508,720
	508,720	1,233,733	1,742,453
Total expenditures	15,833,381	1,885,688	17,719,069
Deficiency of revenues under expenditures	(252,315)	(314,935)	(567,250)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Nonmajor Governmental Funds	Total
Other financing sources (uses):			
Sale of equipment	\$ 2,650	\$ -	\$ 2,650
Compensation for loss of capital assets	188	-	188
Interfund transfers in	-	164,998	164,998
Interfund transfers out	-	(164,998)	(164,998)
Total other financing sources (uses)	<u>2,838</u>	<u>-</u>	<u>2,838</u>
Net change in fund balances	(249,477)	(314,935)	(564,412)
Fund balances beginning of year	<u>895,460</u>	<u>335,776</u>	<u>1,231,236</u>
Fund balances end of year	<u>\$ 645,983</u>	<u>\$ 20,841</u>	<u>\$ 666,824</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (564,412)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 280,433	
Depreciation expense	<u>(471,102)</u>	(190,669)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 574,965

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 6,758

Some expenses reported in the statement of activities, including compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 7,776

Change in net assets of governmental activities \$ (165,582)

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

	<u>Nonmajor Enterprise Funds</u>
Assets	
Cash and cash equivalents	\$ 271,000
Accounts receivable	67
Inventories	68,788
Capital assets, net of accumulated depreciation	<u>22,816</u>
Total assets	<u>362,671</u>
Liabilities	
Accounts payable	1,421
Salaries and benefits payable	<u>5,679</u>
Total liabilities	<u>7,100</u>
Net Assets	
Invested in capital assets	22,816
Unrestricted	<u>332,755</u>
Total net assets	<u>\$ 355,571</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Nonmajor Enterprise Funds
	<u>Funds</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>638,123</u>
Operating expenses:	
Non-instructional programs:	
Non-instructional operations:	
Salaries	274,745
Benefits	33,877
Purchased services	123,296
Supplies	353,002
Depreciation	6,012
Interest	177
	<u>791,109</u>
Operating loss	<u>(152,986)</u>
Non-operating revenues:	
Interest on investments	2,721
State sources	7,969
Federal sources	<u>204,050</u>
Total non-operating revenues	<u>214,740</u>
Change in net assets	61,754
Net assets beginning of year, as restated (note 15)	<u>293,817</u>
Net assets end of year	\$ <u><u>355,571</u></u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Nonmajor Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 452,580
Cash received from miscellaneous operating activities	363,510
Cash payments to employees for services	(308,151)
Cash payments to suppliers for goods or services	<u>(524,058)</u>
Net cash used in operating activities	<u>(16,119)</u>
Cash flows from non-capital financing activities:	
State grants received	7,969
Federal grants received	178,525
Operating loan proceeds	40,000
Operating loan payments	<u>(67,600)</u>
Net cash provided by non-capital financing activities	<u>158,894</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,178)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,721</u>
Net increase in cash and cash equivalents	144,318
Cash and cash equivalents beginning of year	<u>126,682</u>
Cash and cash equivalents end of year	<u>\$ 271,000</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Nonmajor Enterprise Funds
	<u> </u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (152,986)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	6,012
Commodities used	27,679
(Increase) in accounts receivable	(33)
Decrease in contract receivable	178,000
(Increase) in inventories	(66,964)
(Decrease) in accounts payable	(7,718)
Increase in salaries and benefits payable	471
(Decrease) in interfund payable	(360)
(Decrease) in accrued interest payable	<u>(220)</u>
Net cash used in operating activities	\$ <u><u>(16,119)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$27,679 of federal commodities.

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Marion Independent School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve, an early childhood special education program for four and five year olds, and a junior kindergarten for five year olds who are not ready for kindergarten. Additionally, the District either operates or sponsors various adult education programs and the Marion Home School Assistance Program, which serves more than 550 students. The geographic area served includes the City of Marion, Iowa, and the agricultural territory in Linn County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Marion Independent School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Marion Independent School District has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following proprietary funds:

The District's enterprise funds are the School Nutrition Fund, MDE School Store Fund, and the Student Built House Fund. These funds are used to account for the food service, student-run store, and building and trades program operations of the District.

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Interfund Receivables and Payables – During the course of its operations, the District may have certain transactions between funds or pooled cash balances. To the extent that these transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 2. Cash and Pooled Investments (continued)

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u><u>2,049,940</u></u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody’s Investors Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Physical Plant and Equipment Levy	\$ 140,215
Capital Projects	Special Revenue:	
	Physical Plant and Equipment Levy	<u>24,783</u>
Total		<u>\$ 164,998</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 4. Interfund Receivables and Payables

At June 30, 2005, the interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Interfund balances between Governmental Funds:		
Pooled cash balances:		
Debt Service	Special Revenue - Physical Plant and Equipment Levy	\$ 13,263
Other receivables:		
General	Special Revenue - Student Activity	<u>117</u>
Total		<u>\$ 13,380</u>

Interfund balances between Governmental Funds are not included on the District-wide statement of net assets.

Note 5. Note Receivable

During the year ended June 30, 2004, the District entered into a surplus note agreement with the Metro Interagency Insurance Program in the amount of \$47,752. The District is to receive principal and interest at 1.5% from time to time until paid in full as funds become available. There is no repayment schedule.

Note 6. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06A	6/30/2005	6/30/2006	\$ <u>2,016,895</u>	\$ <u>-</u>	\$ <u>2,008,000</u>	\$ <u>-</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2005.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06A	3.500%	3.903%

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 695,344	\$ -	\$ -	\$ 695,344
Construction in progress	470,158	178,211	470,158	178,211
Total capital assets not being depreciated	<u>1,165,502</u>	<u>178,211</u>	<u>470,158</u>	<u>873,555</u>
Capital assets being depreciated:				
Buildings	14,613,598	497,386	-	15,110,984
Improvements other than buildings	695,000	-	-	695,000
Furniture and equipment	3,167,047	74,994	56,918	3,185,123
Total capital assets being depreciated	<u>18,475,645</u>	<u>572,380</u>	<u>56,918</u>	<u>18,991,107</u>
Less accumulated depreciation for:				
Buildings	6,691,498	286,640	-	6,978,138
Improvements other than buildings	393,143	34,005	-	427,148
Furniture and equipment	2,348,829	150,457	56,918	2,442,368
Total accumulated depreciation	<u>9,433,470</u>	<u>471,102</u>	<u>56,918</u>	<u>9,847,654</u>
Total capital assets being depreciated, net	<u>9,042,175</u>	<u>101,278</u>	<u>-</u>	<u>9,143,453</u>
Governmental activities capital assets, net	<u>\$ 10,207,677</u>	<u>\$ 279,489</u>	<u>\$ 470,158</u>	<u>\$ 10,017,008</u>
Business-type activities:				
Furniture and equipment	\$ 312,069	\$ 1,178	\$ -	\$ 313,247
Less accumulated depreciation	284,419	6,012	-	290,431
Business-type activities capital assets, net	<u>\$ 27,650</u>	<u>\$ (4,834)</u>	<u>\$ -</u>	<u>\$ 22,816</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Capital Assets (continued)

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular	\$ 67,332
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Support services:

Administration	27,489
----------------	--------

Operation and maintenance of plant services	26,161
---	--------

Transportation	59,899
----------------	--------

	<u>180,881</u>
--	----------------

Unallocated depreciation	<u>290,221</u>
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Total governmental activities depreciation expense	<u>\$ 471,102</u>
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Business-type activities:

Food service operations	<u>\$ 6,012</u>
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Note 8. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	General Obligation Bonds	Capital Loan Notes	Contract Payable	Compensated Absences	Total
Balance beginning of year	\$ 5,760,000	\$ 75,000	\$ 166,267	\$ 13,316	\$ 6,014,583
Additions	-	-	-	5,540	5,540
Reductions	<u>450,000</u>	<u>75,000</u>	<u>49,965</u>	<u>13,316</u>	<u>588,281</u>
Balance end of year	<u>\$ 5,310,000</u>	<u>\$ -</u>	<u>\$ 116,302</u>	<u>\$ 5,540</u>	<u>\$ 5,431,842</u>
Due within one year	<u>\$ 470,000</u>	<u>\$ -</u>	<u>\$ 56,719</u>	<u>\$ 5,540</u>	<u>\$ 532,259</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8. Long-Term Liabilities (continued)

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed twenty years of service to the District, and the final ten years must be continuous years of service. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a certain percentage of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. The applicable percentage is 50% for employees who retire in the first through fifth year of becoming eligible, 35% for employees who retire in the sixth year of eligibility, and 20% for employees who retire in the seventh year of eligibility. Early retirement benefits paid during the year ended June 30, 2005, totaled \$56,445. The cost of early retirement payments expected to be liquidated currently is recorded as a liability of the Special Revenue, Management Fund in the fund financial statements and as a liability of the Governmental Activities in the District-wide financial statements.

Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2006	4.25-6.00 %	\$ 470,000	\$ 242,718	\$ 712,718
2007	4.25-4.30	495,000	218,456	713,456
2008	4.25-4.35	515,000	197,304	712,304
2009	4.35-4.40	540,000	175,186	715,186
2010	4.40-4.50	380,000	151,578	531,578
2011	4.50	345,000	134,798	479,798
2012	4.50	365,000	119,272	484,272
2013	4.60	390,000	102,848	492,848
2014	4.60	410,000	84,908	494,908
2015	4.70	440,000	66,048	506,048
2016	4.70	465,000	45,368	510,368
2017	4.75	495,000	23,512	518,512
		<u>\$ 5,310,000</u>	<u>\$ 1,561,996</u>	<u>\$ 6,871,996</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8. Long-Term Liabilities (continued)

Contract Payable

On April 14, 2003, the District entered into a contract to purchase a building to be used for its home school assistance program. Details of the District's June 30, 2005 contract indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2006	5.00 %	\$ 56,719	\$ 5,121	\$ 61,840
2007	5.00	59,583	2,250	61,833
		<u>\$ 116,302</u>	<u>\$ 7,371</u>	<u>\$ 123,673</u>

Note 9. Short-Term Debt Activity

During the year ended June 30, 2005, the district entered into short-term bank loans for the General Fund and the Enterprise, Student Built House Fund. The loans were necessary to provide temporary financing during periods of low cash flows. The General Fund short-term loan included interest at 5.5%. The Student Built House Fund short-term loan included interest at 5.875%. A summary of the activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Loans Received	Loans Repaid	Balance End of Year
General Fund	\$ -	\$ 380,000	\$ 380,000	\$ -
Student Built House Fund	27,600	40,000	67,600	-
	<u>\$ 27,600</u>	<u>\$ 420,000</u>	<u>\$ 447,600</u>	<u>\$ -</u>

Note 10. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$602,365, \$577,297, and \$535,700 respectively, equal to the required contributions for each year.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 11. Risk Management

Marion Independent School District is a member of the Metro Interagency Insurance Program (MIIP), an Iowa Code Chapter 28E organization. MIIP is a local government risk-sharing pool whose members include six public educational entities in central Iowa. MIIP was formed in 1990 for the purpose of establishing, operating and maintaining an insurance program for employee health and medical claims.

Each member's contributions to MIIP fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, MIIP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. The fund re-insures for stop-loss insurance for claims in excess of \$100,000 per year per individual. An insurance carrier is paid an administrative fee to process the claims.

The total premiums paid into the plan by all six members from July 1, 2004 to June 30, 2005 were \$25,198,390, of which \$1,129,066 was paid by Marion Independent School District.

Marion Independent School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$508,720 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 13. Construction Commitments

The District entered into a contract totaling \$454,500 for a new roof for the high school. At June 30, 2005 \$178,211 of the contract was completed. The remaining amount of the contract will be paid as work on the project progresses.

Note 14. Subsequent Event

On August 1, 2005, the District issued \$700,000 of capital loan notes. Proceeds from the issuance are to be used for facility improvement projects. These notes will be paid over five years from the physical plant and equipment levy with interest rates from 2.625% to 3.125%.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 15. Restatement of Beginning Balances

The following beginning balances have been restated to properly reflect the accumulated depreciation of School Nutrition Fund equipment as of June 30, 2005.

	Accumulated Depreciation - Equipment	Enterprise - School Nutrition Fund Net Assets	Business-type Activities Net Assets
Balance, as previously reported	\$ 290,614	\$ 144,374	\$ 287,622
Capital assets adjustment	<u>(6,195)</u>	<u>6,195</u>	<u>6,195</u>
Balance, as restated	<u>\$ 284,419</u>	<u>\$ 150,569</u>	<u>\$ 293,817</u>

Note 16. Deficit Balance

The Physical Plant and Equipment Levy Fund within the nonmajor governmental funds had a \$178,971 deficit fund balance at June 30, 2005.

Required Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –
Budget and Actual (Accrual Basis) – All Governmental Funds
and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds - Actual	Proprietary Funds - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 9,051,943	\$ 640,844	\$ 9,692,787	\$ 9,533,917	\$ 158,870
State sources	7,789,648	7,969	7,797,617	7,800,170	(2,553)
Federal sources	310,228	204,050	514,278	480,251	34,027
Total revenues	17,151,819	852,863	18,004,682	17,814,338	190,344
EXPENDITURES:					
Instruction	10,943,342	-	10,943,342	11,108,561	165,219
Support services	5,033,274	-	5,033,274	5,343,166	309,892
Non-instructional programs	-	791,109	791,109	750,550	(40,559)
Other expenditures	1,742,453	-	1,742,453	1,582,061	(160,392)
Total expenditures	17,719,069	791,109	18,510,178	18,784,338	274,160
Excess (deficiency) of revenues over (under) expenditures	(567,250)	61,754	(505,496)	(970,000)	464,504
Other financing sources, net	2,838	-	2,838	20,000	(17,162)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(564,412)	61,754	(502,658)	(950,000)	447,342
Balance beginning of year, as restated	1,231,236	293,817	1,525,053	950,000	575,053
Balance end of year	\$ 666,824	\$ 355,571	\$ 1,022,395	\$ -	\$ 1,022,395

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Encumbrances are not recognized on the budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

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Other Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Assets				
Cash and pooled investments	\$ 68,521	\$ 101,211	\$ 29,085	\$ 90,700
Receivables:				
Property tax:				
Current year	972	-	-	3,057
Succeeding year	262,039	-	-	142,860
Interfund receivable	-	-	-	-
Accounts	-	16,770	-	-
Total assets	<u>\$ 331,532</u>	<u>\$ 117,981</u>	<u>\$ 29,085</u>	<u>\$ 236,617</u>
Liabilities and Fund Equity				
Liabilities:				
Excess of warrants issued over bank balances	\$ -	\$ -	\$ -	-
Accounts payable	966	10,184	-	259,465
Salaries and benefits payable	-	952	-	-
Interfund payable	-	117	-	13,263
Deferred revenue:				
Succeeding year property tax	262,039	-	-	142,860
Early retirement	22,222	-	-	-
Total liabilities	<u>285,227</u>	<u>11,253</u>	<u>-</u>	<u>415,588</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved:				
Undesignated	46,305	106,728	29,085	(178,971)
Total fund equity	<u>46,305</u>	<u>106,728</u>	<u>29,085</u>	<u>(178,971)</u>
Total liabilities and fund equity	<u>\$ 331,532</u>	<u>\$ 117,981</u>	<u>\$ 29,085</u>	<u>\$ 236,617</u>

See accompanying independent auditor's report.

	<u>Debt Service</u>	<u>Total</u>
\$	42,296	\$ 331,813
	6,959	10,988
	644,270	1,049,169
	13,263	13,263
	-	16,770
	<u>706,788</u>	<u>1,422,003</u>
\$	<u>706,788</u>	\$ <u>1,422,003</u>

\$	44,524	\$ 44,524
	300	270,915
	-	952
	-	13,380
	644,270	1,049,169
	-	22,222
	<u>689,094</u>	<u>1,401,162</u>

	17,694	17,694
	-	3,147
	<u>17,694</u>	<u>20,841</u>
\$	<u>706,788</u>	\$ <u>1,422,003</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	Special Revenue			
	Management	Student	Public	Physical
	Levy	Activity	Education and Recreation Levy	Plant and Equipment Levy
Revenues:				
Local sources:				
Local tax	\$ 99,422	\$ -	\$ -	\$ 312,697
Other	1,992	437,287	242	1,779
State sources	102	-	-	321
Total revenues	101,516	437,287	242	314,797
Expenditures:				
Current:				
Instruction:				
Regular instruction	23,227	-	-	-
Other instruction	-	414,206	-	-
Support services:				
Operation and maintenance of plant services	189,861	-	16,323	8,338
Other expenditures:				
Facilities acquisition	-	-	-	350,023
Long term debt:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	213,088	414,206	16,323	358,361
Excess (deficiency) of revenues over (under) expenditures	(111,572)	23,081	(16,081)	(43,564)
Other financing sources (uses):				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	(164,998)
Total other financing sources (uses)	-	-	-	(164,998)

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$	711,827	\$ -	\$ 1,123,946
	4,351	-	445,651
	733	-	1,156
	<u>716,911</u>	<u>-</u>	<u>1,570,753</u>
	-	-	23,227
	-	-	414,206
	-	-	214,522
	-	27,228	377,251
	574,965	-	574,965
	281,517	-	281,517
	<u>856,482</u>	<u>27,228</u>	<u>1,885,688</u>
	(139,571)	(27,228)	(314,935)
	140,215	24,783	164,998
	-	-	(164,998)
	<u>140,215</u>	<u>24,783</u>	<u>-</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	Special Revenue			
	Management	Student	Public	Physical
	Levy	Activity	Education and Recreation Levy	Plant and Equipment Levy
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ (111,572)	\$ 23,081	\$ (16,081)	\$ (208,562)
Fund balances beginning of year	157,877	83,647	45,166	29,591
Fund balances end of year	<u>\$ 46,305</u>	<u>\$ 106,728</u>	<u>\$ 29,085</u>	<u>\$ (178,971)</u>

See accompanying independent auditor's report.

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 644	\$ (2,445)	\$ (314,935)
<u>17,050</u>	<u>2,445</u>	<u>335,776</u>
\$ <u><u>17,694</u></u>	\$ <u><u>-</u></u>	\$ <u><u>20,841</u></u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

June 30, 2005

	School Nutrition	MDE School Store	Student Built House	Total
Assets				
Cash and cash equivalents	\$ 158,842	\$ 1,471	\$ 110,687	\$ 271,000
Accounts receivable	67	-	-	67
Inventories	26,288	-	42,500	68,788
Capital assets, net of accumulated depreciation	22,816	-	-	22,816
Total assets	<u>208,013</u>	<u>1,471</u>	<u>153,187</u>	<u>362,671</u>
Liabilities				
Accounts payable	1,245	-	176	1,421
Salaries and benefits payable	5,679	-	-	5,679
Total liabilities	<u>6,924</u>	<u>-</u>	<u>176</u>	<u>7,100</u>
Net Assets				
Invested in capital assets	22,816	-	-	22,816
Unrestricted	178,273	1,471	153,011	332,755
Total net assets	<u>\$ 201,089</u>	<u>\$ 1,471</u>	<u>\$ 153,011</u>	<u>\$ 355,571</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 Year Ended June 30, 2005

	School Nutrition	MDE School Store	Student Built House	Total
Operating revenues:				
Local sources:				
Charges for services	\$ 452,613	\$ 610	\$ 184,900	\$ 638,123
Operating expenses:				
Non-instructional programs:				
Non-instructional operations:				
Salaries	274,745	-	-	274,745
Benefits	33,877	-	-	33,877
Purchased services	690	-	122,606	123,296
Supplies	301,078	612	51,312	353,002
Depreciation	6,012	-	-	6,012
Interest	-	-	177	177
	616,402	612	174,095	791,109
Operating income (loss)	(163,789)	(2)	10,805	(152,986)
Non-operating revenues:				
Interest on investments	2,290	17	414	2,721
State sources	7,969	-	-	7,969
Federal sources	204,050	-	-	204,050
Total non-operating revenues	214,309	17	414	214,740
Change in net assets	50,520	15	11,219	61,754
Net assets beginning of year, as restated	150,569	1,456	141,792	293,817
Net assets end of year	\$ 201,089	\$ 1,471	\$ 153,011	\$ 355,571

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2005

	School Nutrition	MDE School Store	Student Built House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 452,580	\$ -	\$ -	\$ 452,580
Cash received from miscellaneous operating activities	-	610	362,900	363,510
Cash payments to employees for services	(308,151)	-	-	(308,151)
Cash payments to suppliers for goods or services	(298,308)	(612)	(225,138)	(524,058)
Net cash provided by (used in) operating activities	(153,879)	(2)	137,762	(16,119)
Cash flows from non-capital financing activities:				
State grants received	7,969	-	-	7,969
Federal grants received	178,525	-	-	178,525
Operating loan proceeds	-	-	40,000	40,000
Operating loan payments	-	-	(67,600)	(67,600)
Net cash provided by (used in) non-capital financing activities	186,494	-	(27,600)	158,894
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,178)	-	-	(1,178)
Cash flows from investing activities:				
Interest on investments	2,290	17	414	2,721
Net increase in cash and cash equivalents	33,727	15	110,576	144,318
Cash and cash equivalents at beginning of year	125,115	1,456	111	126,682
Cash and cash equivalents at end of year	\$ 158,842	\$ 1,471	110,687	\$ 271,000

MARION INDEPENDENT SCHOOL DISTRICT
COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2005

	School Nutrition	MDE School Store	Student Built House	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (163,789)	\$ (2)	10,805	\$ (152,986)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	6,012	-	-	6,012
Commodities used	27,679	-	-	27,679
(Increase) in accounts receivable	(33)	-	-	(33)
Decrease in contract receivable	-	-	178,000	178,000
(Increase) in inventories	(25,464)	-	(41,500)	(66,964)
Increase (decrease) in accounts payable	1,245	-	(8,963)	(7,718)
Increase in salaries and benefits payable	471	-	-	471
(Decrease) in interfund payable	-	-	(360)	(360)
(Decrease) in accrued interest payable	-	-	(220)	(220)
Net cash provided by (used in) operating activities	\$ <u>(153,879)</u>	\$ <u>(2)</u>	\$ <u>137,762</u>	\$ <u>(16,119)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2003, the District received \$27,679 of federal commodities.

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District Wide:				
Interest	\$ -	\$ 1,835	\$ -	\$ 1,835
Back to School Fair	14	-	-	14
Home School Program	1,549	7,508	5,792	3,265
High School:				
Take Charge	1	-	-	1
Trends in Fashion	11	629	625	15
Wellness	302	596	634	264
Foundation Donations	112	-	105	7
Drama	778	949	574	1,153
Speech	-	1,916	1,916	-
Vocal	10,195	4,979	3,788	11,386
Instrumental	1,885	11,309	9,554	3,640
Miscellaneous	4,227	12,256	10,981	5,502
Science Club	470	264	267	467
Creative, Inc.	400	139	139	400
Student Newspaper	725	2,278	1,620	1,383
Musical	5,195	5,223	4,679	5,739
National Honor Society	42	940	591	391
Academic Competition	701	-	-	701
Thespians	1,305	950	820	1,435
French	151	-	-	151
FBLA	40	5,323	5,363	-
VTR Technician	7	-	-	7
SODA - Students	487	2,367	2,582	272
Spanish	729	-	-	729
Student Senate	3,949	8,937	7,981	4,905
England Trip	606	2,423	1,708	1,321
Quill/Yearbook	4,130	7,819	2,207	9,742
Arts & Crafts	838	3,103	3,449	492
Class of 2005	646	-	113	533
Class of 2006	2,834	2,750	4,811	773
Class of 2007	796	4,834	2,340	3,290
Class of 2008	-	765	497	268
General Athletics	21,224	234,209	242,817	12,616
Vernon:				
PEER Helpers	31	300	250	81
ELP	-	3,006	2,164	842
Vocal	423	3,066	2,746	743
Instrumental	1,155	12,261	11,414	2,002
Honor Band	162	4,026	874	3,314

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Vernon (continued):				
General Activities	\$ 88	\$ 259	\$ 255	\$ 92
Library Activities	1,318	-	-	1,318
PE/Health	191	59	28	222
Science Club	1,348	8	-	1,356
Student Newspaper	505	-	-	505
Washington DC Trip	-	2,056	2,206	(150)
SODA - Students	358	3,723	4,081	-
Student Senate	-	392	18	374
Quill/Yearbook	929	5,935	5,973	891
Student Magazines	2,871	31,603	30,339	4,135
Athletics - Coaches	1,956	8,233	5,698	4,491
Athletic Officials	-	2,058	2,076	(18)
Athletic Beverages	2,638	8,812	7,507	3,943
Volleyball Camp	3	2,518	2,364	157
Emerson:				
Library Activities	536	-	-	536
Miscellaneous	333	989	1,299	23
Foundation Donations	72	-	-	72
Starry:				
Wells Fargo	-	46	-	46
Butterfly Garden	191	-	-	191
Miscellaneous	649	312	245	716
Resale	44	-	-	44
Francis Marion:				
Instrumental	502	1,186	1,374	314
Miscellaneous	1,570	4,979	1,111	5,438
SODA - Students	(303)	303	-	-
Student Magazines	1,728	16,856	16,231	2,353
Total	\$ 83,647	\$ 437,287	\$ 414,206	\$ 106,728

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 5,259,733	\$ 5,452,049	\$ 5,388,765	\$ 5,019,524
Tuition	3,158,067	3,078,582	2,733,819	2,478,469
Other	634,143	544,676	679,824	934,541
Intermediate sources	-	3,623	7,011	7,833
State sources	7,789,648	7,405,475	7,162,859	7,113,970
Federal sources	310,228	385,529	331,221	286,256
Total revenues	<u>\$ 17,151,819</u>	<u>\$ 16,869,934</u>	<u>\$ 16,303,499</u>	<u>\$ 15,840,593</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 7,347,808	\$ 7,190,118	\$ 6,491,839	\$ 6,345,380
Special instruction	2,385,129	2,460,532	2,210,473	2,012,423
Other instruction	1,210,405	1,091,866	1,007,615	1,024,104
Support services:				
Student services	637,042	647,126	613,608	602,489
Instructional staff services	607,026	716,121	661,889	710,187
Administration services	1,737,393	1,594,679	1,507,089	1,184,029
Operation and maintenance of plant services	1,670,449	1,573,423	1,521,039	1,470,025
Transportation services	381,364	383,700	365,960	350,043
Central and other support services	-	20,332	16,716	17,407
Non-instructional programs	-	6,252	9,204	-
Other expenditures:				
Facilities acquisition	377,251	457,804	457,577	429,534
Long-term debt:				
Principal	574,965	514,905	498,265	470,035
Interest and fiscal charges	281,517	296,247	312,601	332,440
AEA flowthrough	508,720	498,185	511,333	513,782
Total expenditures	<u>\$ 17,719,069</u>	<u>\$ 17,451,290</u>	<u>\$ 16,185,208</u>	<u>\$ 15,461,878</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 05	\$ <u>27,679</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 05	<u>21,344</u>
National School Lunch Program	10.555	FY 05	<u>155,027</u>
			<u>176,371</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	4086G	<u>120,674</u>
Grants for State Assessments and Related Activities	84.369	FY 05	<u>11,712</u>
Improving Teacher Quality State Grants	84.367	FY 05	<u>60,638</u>
State Grants for Innovative Programs	84.298	FY 05	<u>7,961</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 05	<u>8,180</u>
Grant Wood Area Education Agency:			
Special Education - Grants to States	84.027	FY 05	<u>87,847</u>
Title I Accountability Grants	84.348	FY 04	<u>900</u>
Corporation for National and Community Service:			
Iowa Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	FY 05	<u>750</u>

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

<u>Grantor / Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect (continued):			
U. S. Department of Health and Human Services:			
Linn County Auditor:			
Medical Assistance Program	93.778	FY 05	\$ <u>9,366</u>
Total			\$ <u><u>512,078</u></u>

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Marion Independent School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Marion Independent School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marion Independent School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 31, 2005. The report on the business-type activities and aggregate remaining fund information was qualified due to an inability to observe the School Nutrition Fund inventory. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-05 and II-G-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Marion Independent School District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marion Independent School District and other parties to whom Marion Independent School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marion Independent School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
August 31, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Marion Independent School District:

Compliance

We have audited the compliance of Marion Independent School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Marion Independent School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Marion Independent School District's management. Our responsibility is to express an opinion on Marion Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marion Independent School District's compliance with those requirements.

In our opinion, Marion Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Marion Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Marion Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Marion Independent School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-05 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marion Independent School District and other parties to whom Marion Independent School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa
August 31, 2005

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) We expressed qualified opinions on the business-type activities and aggregate remaining fund information due to the inability to observe the School Nutrition Fund inventory. In addition, we expressed unqualified opinions on the governmental activities and each major fund.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Marion Independent School District did not qualify a low-risk auditee.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the receiving of cash receipts, posting of the cash receipts to the cash receipts journal, and the bank reconciliations, and the recording and distributing of checks can all be performed by the same person in the various funds.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review procedures and make changes as we deem necessary to improve internal control.

Conclusion – Response accepted.

- II-B-05 Disbursements – Out of forty-one disbursements selected in our disbursement test, two were not supported by an invoice or receipt at the time of payment. In addition, one disbursement over scope examined in our payables test was not supported by an invoice or receipt.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation prior to payment.

Response – We will make sure that all future disbursements are properly supported.

Conclusion – Response accepted.

- II-C-05 Football Gate Receipts – Prenumbered tickets and a subsequent reconciliation to the total gate receipts are not used for football games.

Recommendation – The District should establish reconciliation procedures for football gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – The physical layout of the field does not allow us to issue tickets.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

- II-D-05 Fundraisers – Supporting documentation for fundraiser income is being kept by individual activity club sponsors. There are no set procedures in place to review this information for completeness and accuracy other than review by the activity sponsor, who is also responsible for the initial collection of fundraising income.

Recommendation – The District should develop some type of summary form and procedures which would include reviewing supporting documentation for fundraisers in order to account for the completeness and accuracy of revenues recorded. For example, you could have the activity sponsor summarize budgeted, expected, and actual results on a spreadsheet which can be compared to actual fundraising receipts recorded once the fundraiser is completed. Any revenues short or long can then be explained on the form. This form should be reviewed and initialed by either the Activity Director, Principal, or Secretary as applicable. Whoever is reviewing these fundraiser summary forms should also verify in detail the information on a couple of forms each year. This can be done by tracing the information on the form to the supporting documentation kept by the activity sponsor, i.e. sales sheets, order forms, etc. We realize verifying every fundraiser would be time consuming to not every fundraiser needs to be verified in detail. Checking a few each year will let the activity sponsors realize that someone may be reviewing their records.

Response – We will review our procedures regarding fundraising activity and change our procedures as we deem necessary.

Conclusion – Response accepted.

- II-E-05 Netting of Revenues and Expenditures – We noted two receipts that were posted against expenditure accounts. These receipts were for an insurance claims and a donation.

Recommendation – This practice understates both revenues and expenditures. The District should avoid netting a revenue against an expenditure, except in limited circumstances such as a sales tax refund received in the same fiscal year the related expenditure was paid.

Response – We will properly record all revenues in the future.

Conclusion – Response accepted.

- II-F-05 Disbursements – We noted one disbursement that did not go through the normal District disbursement process. This was for a loan repayment in the Enterprise, Student Built House Fund. The bank automatically deducted the principal and interest due from the District's bank account but did not send any supporting documentation until a month later.

Recommendation – All disbursements should go through the District's normal disbursement process to ensure proper support, approval, and recording of the disbursement.

Response – We will make sure all future disbursements go through the normal disbursement process.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

- II-G-05 Inventory – The District did not take a physical count of the Enterprise, School Nutrition Fund food inventory at year end. The warehouse where the District stores its food inventory did not allow a District official to go in and count the amounts on hand.

Recommendation – The District should take a physical count of food inventory at the end of every fiscal year. If the District is not allowed access to its food inventory, the District should consider moving its inventory to a different warehouse.

Response – We now reconcile the monthly ending inventory count per the warehouse to the prior month plus amounts received less amounts used. We will also try to take a physical count of our food inventory at year end.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2005
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the receiving of cash receipts, posting of the cash receipts to the cash receipts journal, and the bank reconciliations, and the recording and distributing of checks can all be performed by the same person in the various funds.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review procedures and make changes as we deem necessary to improve internal control.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Expenditures for the year ended June 30, 2005, exceeded the amounts budgeted in the non-instructional programs and other expenditures functions.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – We will amend our budget before expenditures exceed the budget.

Conclusion – Response accepted.

IV-C-05 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

<u>Paid To</u>	<u>Fund Used</u>	<u>Purpose</u>	<u>Amount</u>
Crooked Creek Christian Camp	General	Home School outing for students, parents, and teachers	\$1,669

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The board should determine and document the public purpose served by this expenditure before authorizing any further payments. If this practice is continued, the District should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – We received \$1,368 in reimbursements from the parents for this expenditure. As of April 25, 2005, we have revised our board policy on the Home School Assistance Program and the public purpose served will be documented on these transactions in the future.

Conclusion – Response accepted.

IV-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions – We noted no business transactions between the District and District officials or employees.

IV-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting (continued):

- IV-G-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-05 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2004 was overstated by 78.2 students. The District's certified enrollment count was overstated by 77 students due to mathematical errors and was overstated by 2 students counted as both resident students and open enrolled students. The District's certified enrollment count was understated by .8 due to not including 8 dual enrolled students. This resulted in a net overstatement of 78.2 students.
- Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response – We will contact the Iowa Department of Education and the Department of Management.
- Conclusion – Response accepted.
- IV-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-05 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-05 Financial Condition – The Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund has a negative fund balance of \$178,971.
- Recommendation – The District needs to explore alternatives to restore the PPEL Fund to a sound financial condition.
- Response – The District will begin collecting a PPEL Fund income surtax for the year ending June 30, 2006.
- Conclusion – Response accepted.
- IV-L-05 Interfund Payable – At June 30, 2005 an interfund payable in the PPEL Fund of \$13,263 had not been repaid to the Debt Service Fund. The payable was for a capital loan note payment from the year ended June 30, 2004.
- Recommendation – The District's PPEL Fund should transfer the payment to the Debt Service Fund.
- Response – We will make the transfer.
- Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting (continued):

- IV-M-05 Student Activity Fund – We noted transactions being recorded through the Special Revenue, Student Activity Fund such as library accounts and book fees that would more appropriately be accounted for in the General Fund.

Recommendation – The Student Activity Fund is to be used to account for money received from student related activities such as admissions, activity fees, student dues, student fundraising events, or other student related cocurricular activities as stated in the administrative rules of the Department of Education.

Response – We will review these accounts and transfer items to more appropriate funds.

Conclusion – Response accepted.

- IV-N-05 Nutrition Fund Accounts – The District records student meal deposits as revenue in the Enterprise, School Nutrition Fund, even though the revenue is not actually earned until the student purchases a meal.

Recommendation – The District should record student meal deposits in a deferred revenue liability account. On a monthly basis, the District should recognize the amount of meals served as revenue.

Response – We will set up a deferred revenue account to record meal deposits until the revenue has been earned.

Conclusion – Response accepted.

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